Yanni & Associates Investment Advisors, LLC
Fourth Quarter 2012 Client Newsletter

Review of the Markets:

	1Q12	2Q12	3Q12	**4Q12**	**2012**
S&P 500	12.59%	-2.75%	6.35%	**-0.38%**	**16.00%**
S&P Mid-Cap	13.50%	-4.93%	5.44%	**3.61%**	**17.88%**
S&P Small-Cap	11.99%	-3.58%	5.40%	**2.22%**	**16.33%**
Morgan Stanley's EAFE (International Stocks)	10.98%	-6.85%	6.98%	**3.21%**	**17.90%**

Economy - Quarterly GDP for 2012 was as follows: First Quarter up 2.0%, Second Quarter up 1.3%, Third Quarter up 3.1%, and Fourth Quarter yet-to-be-released; growing around 3+% is considered fairly robust. Overall, it was a healthy year for the economy, but still growing a bit slower than desired. The Unemployment Rate was 7.8% in December, which was down from 8.5% a year prior. Similar to GDP growth, the Unemployment Rate is gradually decreasing, but at a "snail's pace". Inflation (as measured by the Consumer Price Index) continues to remain tame with the latest figure posting a 1.8% annualized rate. From an economic perspective, we are much more comfortable with the continued progress of the overall domestic economy (although at a bit slower rate than we want).

Equities – For the year, the S&P 500 exceeded our expectations rising 16%. Virtually all of those gains were earned through the third quarter, as the stock market was then off -0.38% in the fourth quarter. For the year, the stock market exhibited similar patterns of volatility, especially with the "summer effect" whereby the stock market rises through May, then drops for the summer months. For the latter half of the year, we shifted to an underweight stock position due to multiple issues including the projected year-end fiscal cliff dilemma. On January first, the fiscal cliff got resolved through The American Taxpayer Relief Act of 2012 ("The Act"). Starting in late December, we began to unwind our underweight stock position through investing in several new equity positions. At the present time, we are still "slightly" underweighted stocks in relation to bond holdings; however we do plan on fully reversing that in the next few weeks. The main details we like about The Act are:

1. The government permanently extended the Bush-era income tax rates for all tax filers except for those with taxable income above $450,000 (married couples filing jointly aka "The Act Threshold").

2. Capital gains and dividend tax rates will remain at 15% for all tax filers below The Act Threshold; above that level, the tax rates will rise to 20% (dividend tax rates were projected to rise to ordinary income tax rates).

A few details we did not like about The Act are:

1. The two-year payroll tax relief expired. Essentially, the additional payroll tax of 2% (which is used to fund Social Security) is shifted back to employees; hence, someone earning $50,000 can expect to pay another $1,000 in taxes. We are not sure most Americans are aware of this; we believe this could now lead to a drag on future GDP and corporate earnings.

2. The debt ceiling fiasco simply got bumped back by two months. In late February, we will see yet another round of political boxing.

Part of the reason we remain "slightly" underweight stocks is these issues may lead to "headwinds" in the markets.

Fixed Income – Interest rates continue to remain at historic lows. The Federal Reserve is going to attempt to maintain a low interest rate environment through bond-buying until unemployment rate falls below 6.5% or inflation exceeds 2.5%. With that said, there have been recent organizations (most notably, Goldman Sachs) issuing reports warning clients about holding big positions in bond funds. While interest rates could conceivably rise in 2013, currently, we are not forecasting a dramatic increase. We continue to be very diversified with multiple different types of bond positions, particularly favoring floating-rate bond funds.

Yanni & Associates Investment Advisors, LLC Firm Update:

During the quarter, Mark Yanni successfully passed the Series 65 exam and was also promoted to Vice President. Nile Doaty also received a promotion to Office Manager and is coming on three years of service with YAIA.

Yanni & Associates Investment Advisors, LLC recent quotes and recognition in various publications:
● Pittsburgh Business Times, *Fiscal cliff looms as next big issue in US, Patty Tascarella, November 9-15, 2012*

● Pittsburgh Business Times, *Do you prefer Internet Marketing or Print Advertisements (Insights) Patty Tascarella, October 5-11, 2012*

Current 2012 Portfolio Recommendations:

- Overall – **"slightly" under-weight stock exposure for our clients' asset allocations with respect to their customized individual guidelines**.

- Within equities - **neutral-weight stance on "growth" and "value".**

- Within equities – **"slightly" under-weight small / mid-capitalization stocks in relation to large capitalization stocks.**

- Within equities – **under-weight international stocks relative to domestic stocks**.

- Within fixed-income – **over-weight to shorter maturity/duration vehicles, while favoring floating-rate bond funds, as well as high-grade Corporate Bonds**. We also believe a position in high-yield bonds are warranted in order to earn additional yield in this low interest-rate environment.

- While we continue to encourage a diversified portfolio of more traditional securities, we also invest in various niche areas based on our views of the economy. Several of our recent "niche" ideas include the following:

  ➔ Floating-Rate Bond Fund – In an attempt to hedge our fixed-income positions against an increase in interest rates, we have been utilizing floating-rate bond funds. We have found some of these funds are also offering fairly attractive yields in today's low-yield environment.

  ➔ Emerging Markets Stock Fund – One of our recent new positions is into emerging markets. We believe China's GDP slowdown will stabilize. Also, from a technical perspective (charting), emerging markets are trading at a larger discount to their all-time highs in relation to larger capitalization domestic markets.

  ➔ Micro-Cap Stock Fund – Another one of our new positions is into Micro-Cap stocks. From a technical charting perspective, Micro-Cap stocks also appear attractive relative to larger capitalization stocks.

  ➔ Gold Fund (YAIA sold its gold position) – We have been receiving many questions with regards to when we believe we should re-enter gold. In our six years in business, we have held gold twice, and successfully sold it both times at a profit. We do believe gold will rise in the long-run; however, we just believe there is a bit more short-term risk for this commodity on the downside. In general, commodities tend to be a good diversification asset for traditional market investing; however, they are volatile as well.

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